USAID PROJECT REVIEW

of

AGRICULTURAL CREDIT in VIETNAM

Project No. 730-11-140-291-03
(Project Started in 1965 to End FY-76)

MAY 1974

United States Agency
for
International Development

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Office of Associate Director for Food and Agriculture
Agricultural Economics and Support Division
Saigon, Republic of Vietnam
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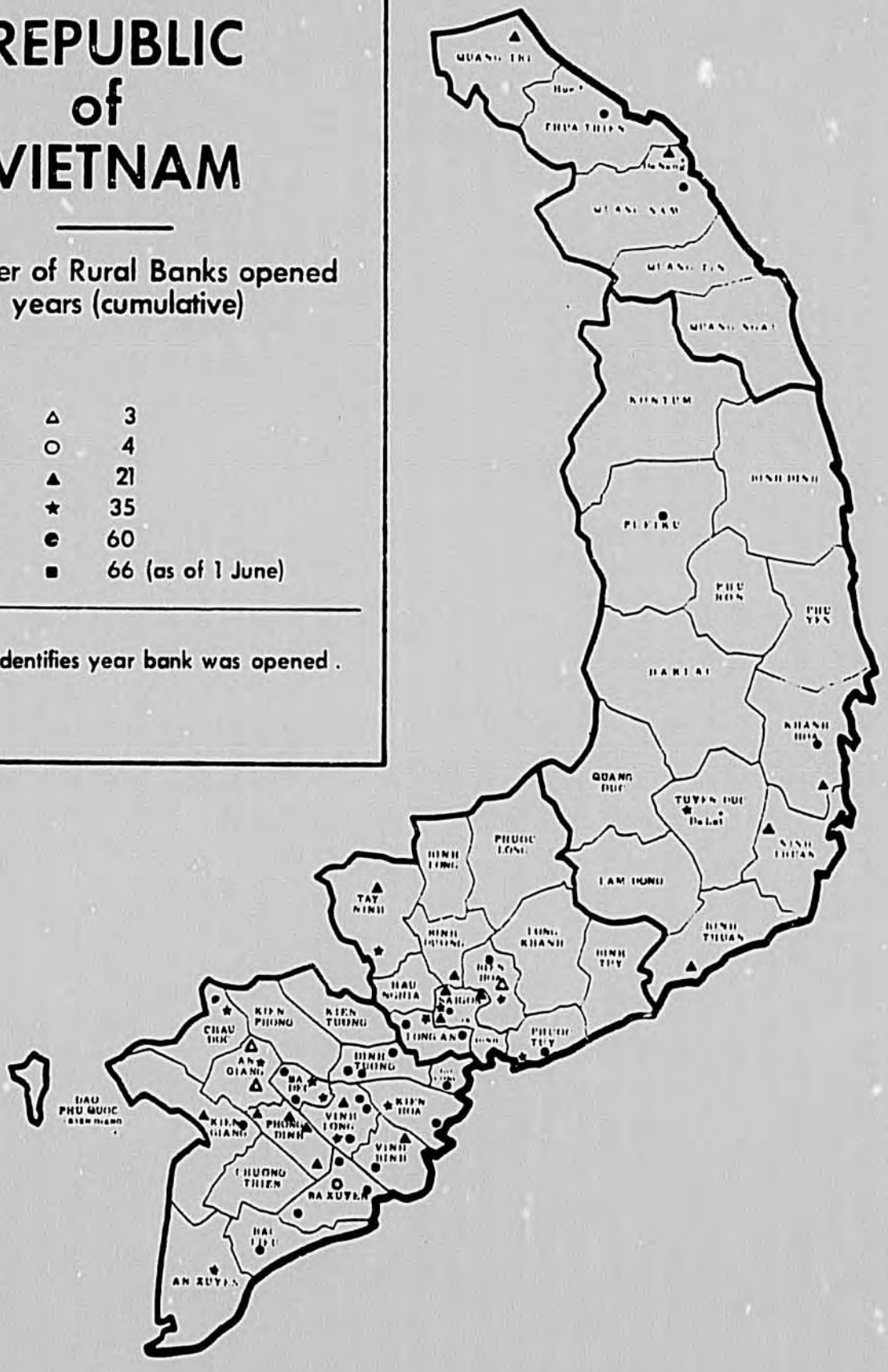
REPUBLIC of VIETNAM

Number of Rural Banks opened by years (cumulative)

1969	△	3
1970	○	4
1971	▲	21
1972	★	35
1973	●	60
1974	■	66 (as of 1 June)

Symbol identifies year bank was opened .



SUMMARY OF ACCOMPLISHMENTS

THE AGRICULTURAL DEVELOPMENT BANK OF VIETNAM

The Agricultural Development Bank of Vietnam (ADBV) was established by decree on January 31, 1967 with a capital of VN$200,000,000. Since that time the bank has developed rapidly. Credit operations are now carried out by branch offices in all 44 provinces and three autonomous cities in Vietnam. The bank's present assets exceed VN$35 billion. The loan portfolio and volume have grown steadily every year. The number of loans made per year have increased from 89,405 in 1969 to 328,961 in 1973. The amounts loaned have expanded from VN$4,614 billion to VN$33,077 billion over the same period. Of the VN$33 billion loaned in 1973 over VN$20 billion were collected in that year.

In accordance with present policy the ADBV has emphasized small loans to assist low income farmers and fishermen. Well over 90% of the loans made by the bank since its beginning have been less than VN$100,000. (About US$180 at current rates.) In addition to its function as a credit institution, the ADBV also mobilizes additional loan resources through savings and deposits which have grown from VN$512 million in September 1970 to VN$6,734 billion as of December 1973.

For the past five years the annual collection or recovery rate has been 65% of loans processed the previous year and 35% of loans made in the current year.

In keeping with its objective to benefit as large a portion of the farming population as possible, the ADBV has developed a variety of channels for the delivery of credit. Through the Village Credit Program the ADBV has organized over 1,800 Village Credit Committees consisting of local officials and private

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Note: Official exchange rates (piasters per US dollar)

1967	- 118		1971	- 337	
1968	- 118		1972	- 424	
1969	- 118		1973	- 502	
1970	- 196		1974	- 560	(Jan.1, 1974)

citizens. These Committees screen applications for loans of VN$80,000 or less and assist in their collection. A revolving fund, consisting of contributions from the Village Self Development Fund and participating village budget allocations, is set up for this purpose and is administered by the ADBV. These funds are then matched by the ADBV. This program provides an important interim mechanism for the dissemination of loan funds at minimum cost in remote areas where no other institutional credit facility is yet available.

The ADBV also encourages the development of farmers' organizations and cooperatives by providing funds for physical improvements, organizational development, inventories, and for reloaning to their membership.

Despite the outstanding performance of the ADBV in expanding the availability of credit, it still provides less than 20% of the total estimated credit needs for agriculture in Vietnam. To more adequately fill this credit gap the ADBV has launched a Rural Bank Development Program.

THE RURAL BANK SYSTEM

The ADBV recognized at an early stage that the delivery system for credit to rural areas needed to be broadened. Consistent with its primary role as a development bank, the ADBV decided to stimulate the creation of private rural banks using the Philippine system as a model.

In August 1969 a Memorandum of Agreement between the GVN and USAID was signed establishing a Rural Bank Development Fund to be managed and operated by the ADBV. The initial capitalization was VN$300 million half of which came from counterpart funds and half from the National Bank of Vietnam. The Fund is used by ADBV to provide incentives by matching capital to local private investors who are willing to create rural banks which will service small farmers. (The ADBV regulates activities of these banks including interest rates, reserve requirements, loan limits, loan

purposes; it also furnishes services for audit and examination.)

An important feature of the private rural banks is the ability to mobilize loan resources in rural areas through savings and deposits. A multiplier effect is achieved as this money, augmented by government funds, is put to productive use. As can be seen from the statistics found in the Appendices, the ratio of loan volume to government funds is almost 7 to 1. At this rate the government would need to provide only about 15% of the total credit requirement to generate adequate funds to satisfy the farmers credit needs.

To assure sound organization and broad community representation, a minimum of seven individuals must file an application to initiate chartering action. In no case may a single person or family group own or control more than 49% of the total privately subscribed common stock. At least 51% of the common stock must be bought by local people. Hence, the operators of the bank are individuals who know their communities well from past business experience and need little training to enable them to determine the credit worthiness of their potential borrowers and to successfully recover loans. The record of the rural banks in this regard is outstanding. The average collection rate exceeds 94% of maturities.

Since the establishment of the Fund the rural banking system has grown at an unprecedented rate. In late 1969 and early 1970 four pilot banks were established. There are now 67 rural banks in operation. An expansion program is underway which calls for 50 new bank openings in 1974. The goal is to establish about 250 banks, at least one rural bank in each district in the country by 1980.

The Rural Bank System now has a total capitalization of VN$2.5 billion. Total deposits have grown to VN$1.7 billion, contradicting the contention that small farmers in Vietnam are unable to save. In 1973 VN$7.5 billion in loans were made to over 50,000 borrowers averaging about VN$150,000 per loan. Well over 60% of these funds have gone to small farmers for production purposes.

The ADBV and the affiliated Rural Banking System supported by sound banking policy, innovative management, and dedicated staff have made significant progress in a very short period of time. A solid institutional foundation has been established upon which to build an expanded system for providing credit to farmers so that they can become more productive, improve their standard of living and effectively contribute to the development and stability of Vietnam.

MEDIUM AND LONG TERM CREDIT

The ADBV has made excellent progress in developing competence in its development credit department. This type of financing will become one of the most important ADBV functions as soon as the processing of all production loans can be referred to other delivery systems such as the private rural banks and Village Self Development Credit Committees.

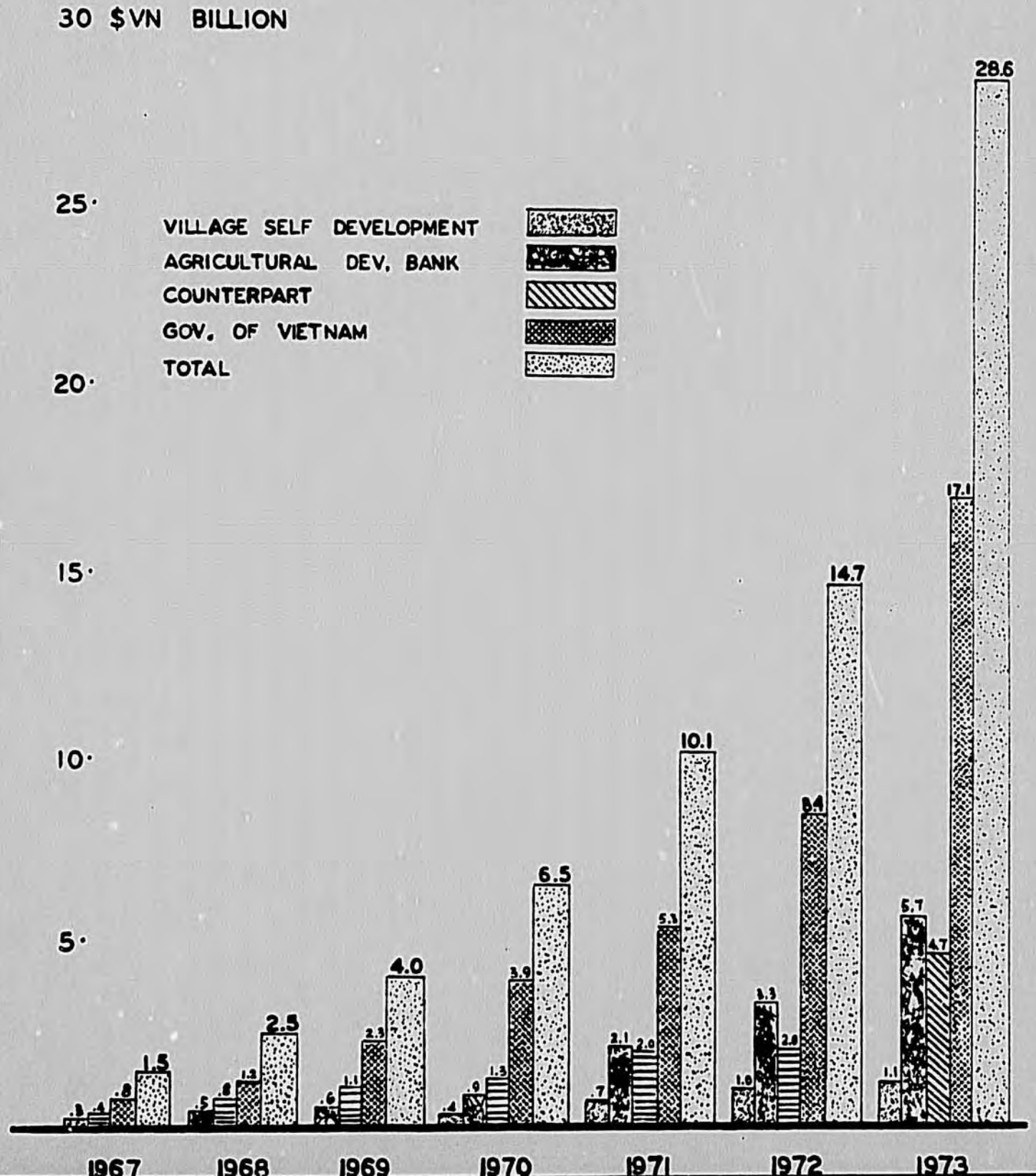
DISCOUNT AND REDISCOUNT OPERATIONS

Another ADBV responsibility involves the furnishing of discount and rediscount facilities for production loans to private rural banks. The ADBV branch serving the province where the rural bank is located is the agent for discounting operations. Currently borrowers' notes are discounted and rediscounted in a range of 70% to 90% of the face value of the note depending on the size of loan and purpose. The monthly outstanding balances for discount operations fluctuates from VN$300 to 500 million.

GROWTH OF ADBV LOAN CAPITAL

BY SOURCE OF FUNDS

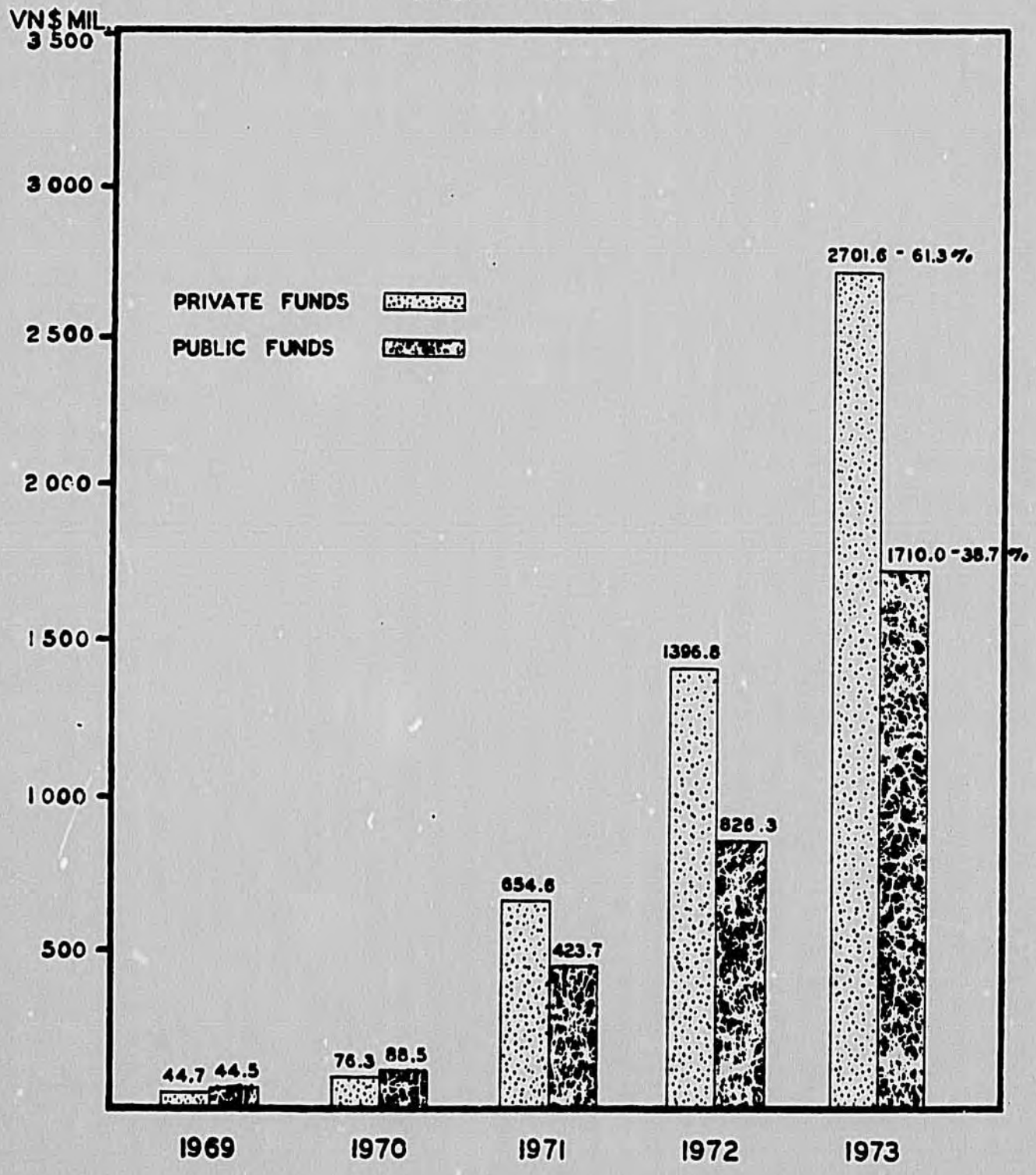
1967 - 1973



GROWTH OF PRIVATE RURAL BANK LOAN CAPITAL

BY SOURCE OF FUNDS

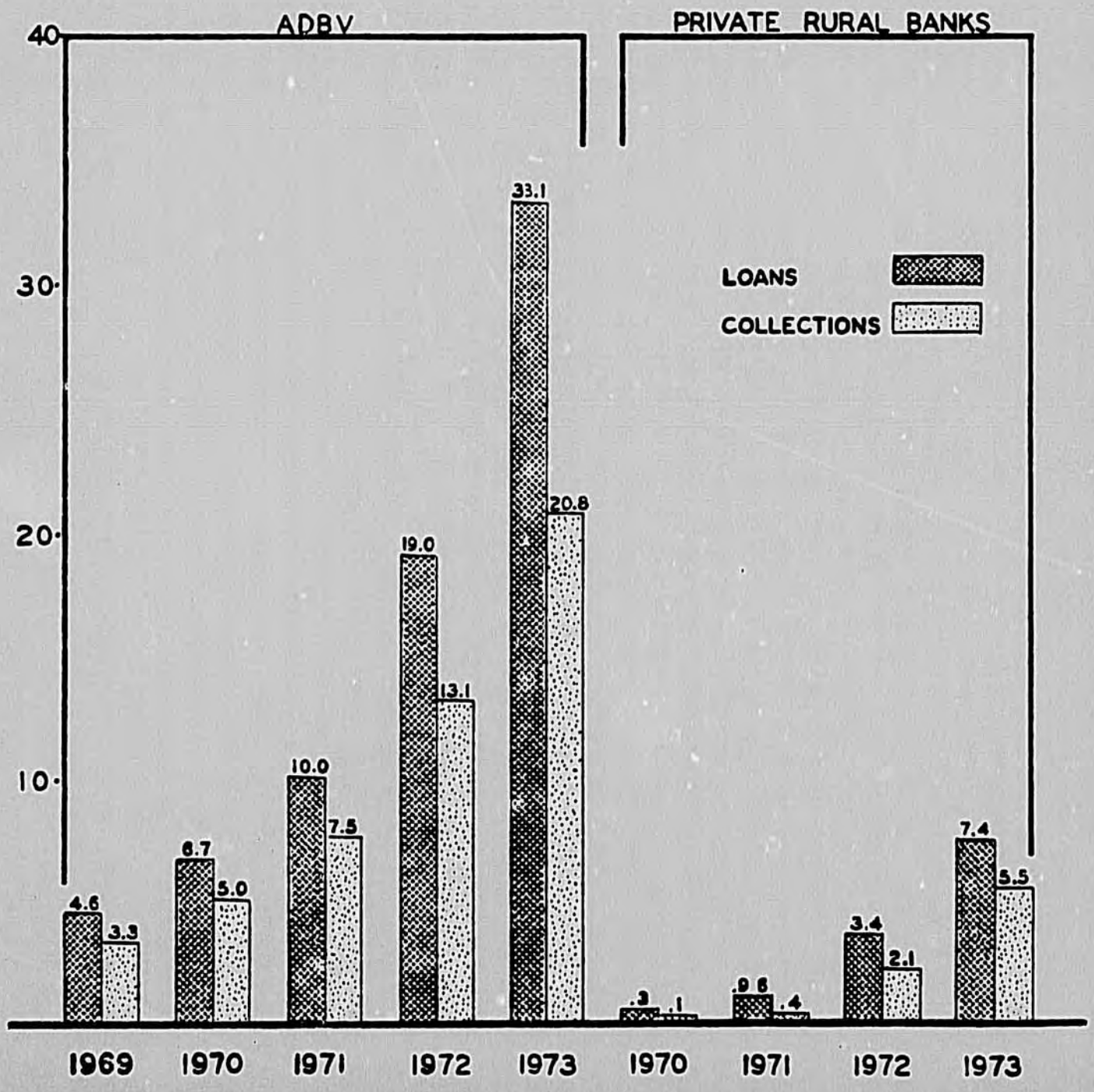
1969 - 1973



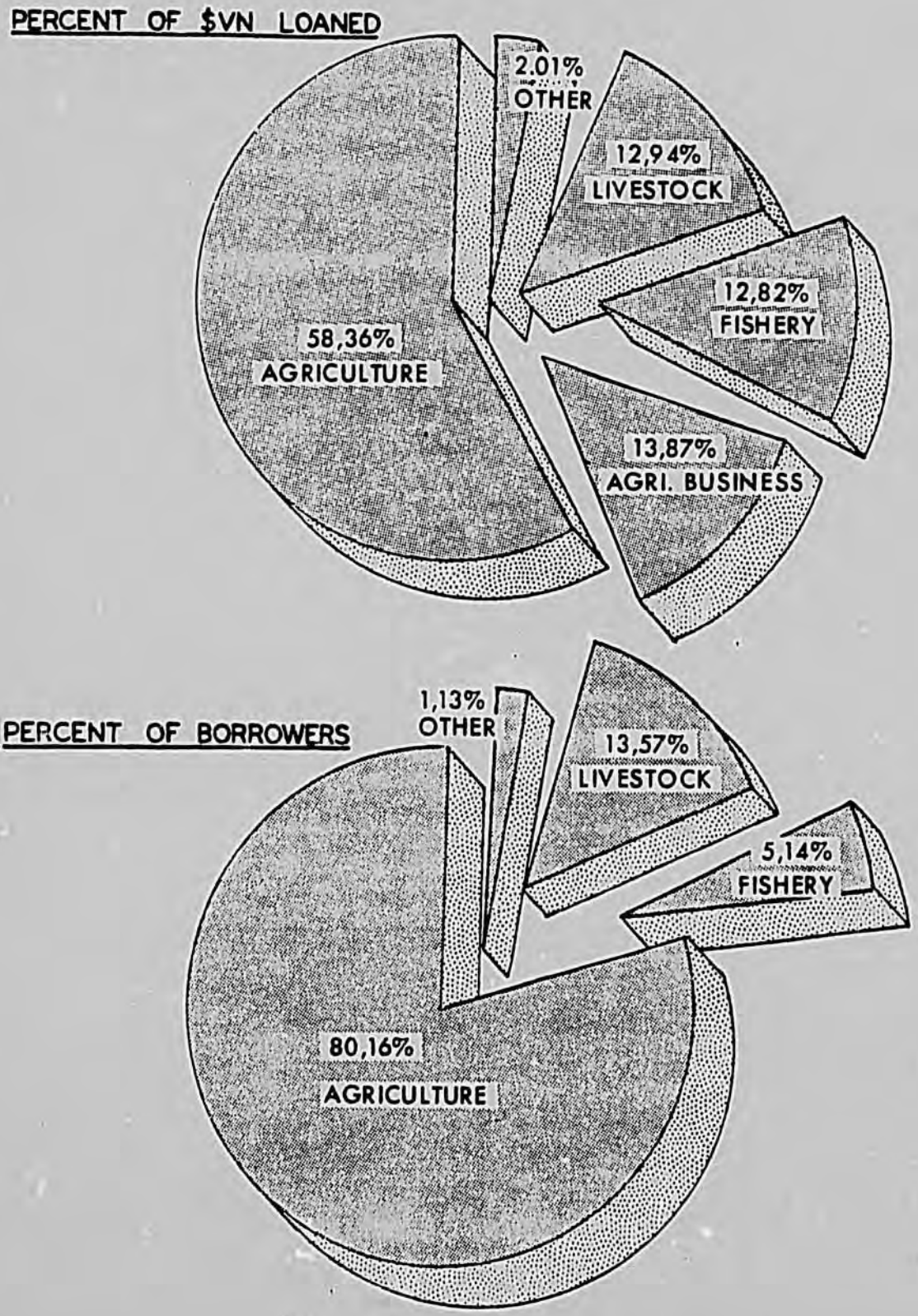
LOAN & COLLECTION RECORD

1969 - 1973

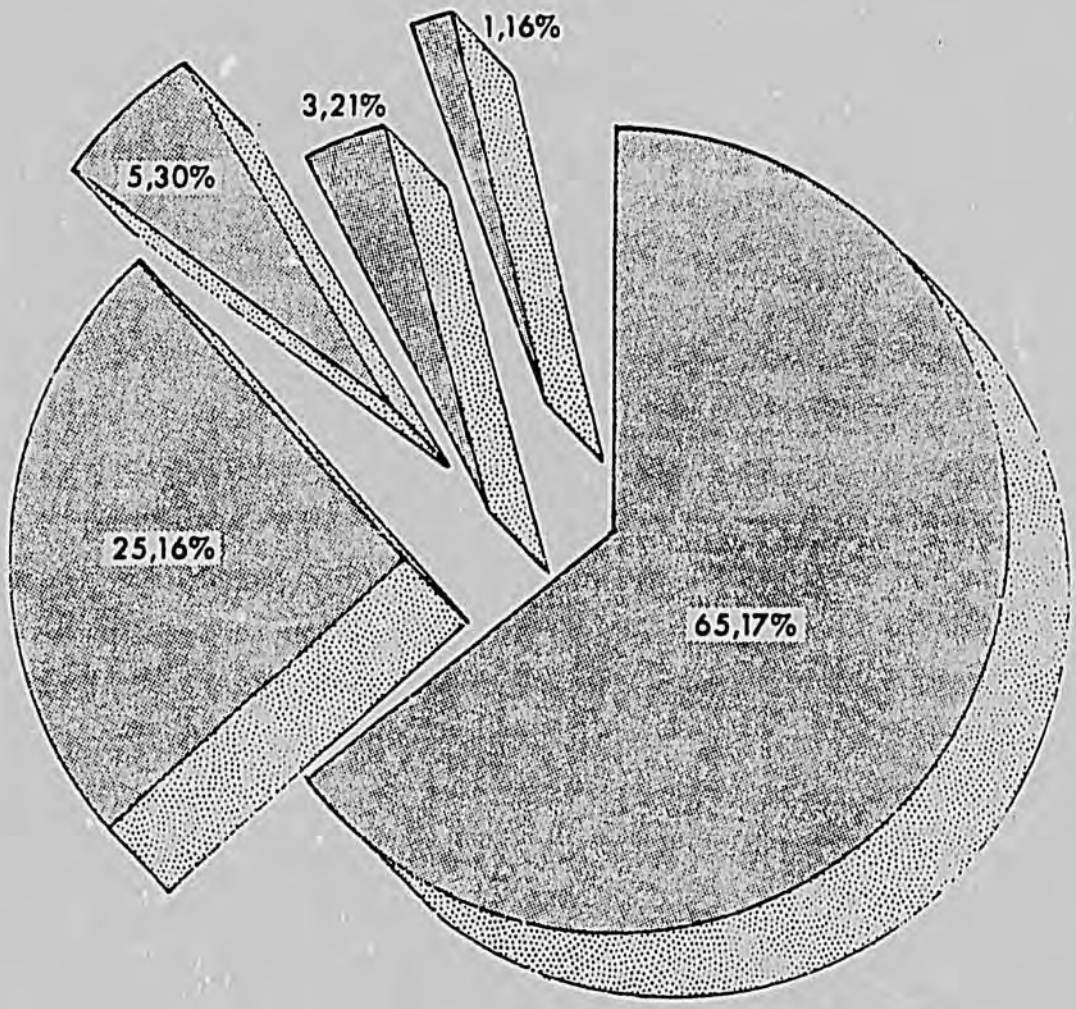
$VN BILLION



ADBV LOANS CLASSIFIED BY PURPOSE OF LOANS FOR CY 1973



PERCENT OF ADBV BORROWERS CLASSIFIED BY SIZE OF LOAN



1973

$ VN 50,000 OR LESS	65,17%
$ VN 50,001 TO 100,000	25,16%
$ VN 100,001 TO 200,000	5,30%
$ VN 200,001 TO 500,000	3,21%
$ VN 500,001 & UP	1,16%

OVERVIEW

Project Background

A decree establishing the National Agricultural Credit Office (NACO) was enacted on April 1, 1957. The objective was to develop the rural economy and improve the population's standard of living, by granting low interest loans to individuals and groups for increasing agricultural, livestock, fisheries, forestry, and rural handicraft production. This was the only rural credit agency in the Republic.

After the NACO was created as an autonomous organization, strenuous efforts were made to achieve quickly the stated objectives. Several different lending programs were initiated and great pressures were brought to bear on NACO management to build a large volume record of success. In retrospect it is obvious that some of these credit projects were based more on general political and economic considerations than sound credit requirements. By 1967, approximately 65% of the entire NACO plan portfolio was seriously overdue with many loans delinquent for periods extending back to 1957. It appeared that only a small percentage of these loans or the loans which had not yet matured could be collected.

During the years of its operation NACO was also given responsibility for special programs not directly related to extending credit. Some of these programs called for making grants and/or subsidies. Consequently NACO found itself in the position of trying to mount sound and proper loan programs based on credit worthiness and at the same time funding programs, justified mostly for social and political impact, in which credit worthiness was not an essential criteria.

NACO nad many problems in implementing its activities including, but not limited to, loan operations, personnel, field organization, and certainly most important, trying to operate in insecure or contested areas of the country.

By December 31, 1965, NACO had, in addition to the head office in Saigon, 40 provincial agencies through-

out Vietnam. From its inception in 1957 until the end of 1966, NACO loaned a total of VN$5 billion. (In contrast the ADBV loaned VN$78 billion from 1967 to December 31, 1973.)

In 1966 it was evident that Vietnam needed a more effective agricultural credit program. Accordingly, a new agricultural credit project was started. The Agricultural Development Bank of Vietnam (ADBV) was chartered on January 31, 1967, and assumed the assets and liabilities of its predecessor NACO . This new institution developed additional branch banks, trained employees, sponsored a private rural bank system, and provided additional credit to rural families through village credit committees. It is the growth, performance, and problems of the ADBV and its intermediary institutions that this project review covers.

Major Project Goal

The major goal of this project is the development of an institutional capability in Vietnam which can provide improved agricultural credit expeditiously, on reasonable terms and in sufficient amounts, to assist the development and expansion of agricultural products including forestry and fisheries activities.

Project Place in USAID Program

This project provides support to the sector-wide GVN/USAID agricultural program. It specifically provides financial and technical assistance to the agricultural community and encourages producers to modernize practices and increase productivity. (See Appendix A.)

PLANNED TARGETS

Consolidation of Loan Funds. The ADBV originally received funds under 17 separate agreements, each of which was subject to different conditions and limita-

tions on its use. Under this system the bank was unable to make full effective use of its money because the demands for funds in one category exceeded the available supply, although there were unloaned balances in other categories.

Increased ADBV Capitalization. New methods for capitalizing the ADBV system were planned including savings and deposits, loans and grants from foreign sources, GVN capital inputs, and discounting procedures at the National Bank.

Soon after the creation of the National Economic Development Fund (NEDF) on March 1, 1972, the ADBV established a special project loan section to handle medium and long term credit obtained from NEDF. Plans were made for the training and guidance of 30 officials over the next three years for receiving and processing loan applications of this type.

Strengthening Institutional Capability. Recruiting additional staff, providing in-country, 3rd-country and U.S. training to ADBV and PRB personnel was included in the planning for this project.

The establishment of three regional ADBV supervisory positions were recommended to improve liaison between the Director General of the ADBV and the field operation. These officials would have loan approval authority, perform public relations activities on the provincial level, and would have a USAID counterpart as an advisor.

The Establishment of a Private Rural Bank System. In 1969 it was decided that a supplemental credit delivery system was needed. A Private Rural Bank System patterned after the Philippines system was started with the inauguration of three banks in late 1969 and with plans to charter banks in each of 250 districts over a 10-year period. (See Appendix B.)

The Organization of a Village Self Development Loan Program. In 1970 a Village Self Development Loan program was begun. Village committees were organized in over 1,800 of the 2,500 villages in Vietnam. The long range objective was to encourage a self-sustained development effort in the villages.

The capital for this program consisted of U.S. counterpart funds, matching ADBV capital, and unallocated tax funds contributed by the villages. The training and supervision of committees was made the responsibility of the ADBV.

PROGRESS AND ACCOMPLISHMENTS

A Consolidation of Loan Funds Was Effected. A joint GVN/USAID credit committee, after a detailed study of ADBV funding, submitted a report on March 4, 1970, which recommended the consolidation of all funds -- GVN and U.S. counterpart -- as direct "untied" working capital rather than loans. Subsequently, Project Agreement No. 71-016 dated February 20, 1971 was approved; it provided for the consolidation and granting of the funds as recommended by the committee. However, this Project Agreement had to be amended on December 10, 1973 because of a GVN legal requirement to change the GVN's requirement of granting its funds to a lend lease arrangement for the period of the ADBV's existence. U.S. counterpart funds were granted as recommended.

Capitalization Was Increased. The ADBV loanable capital was increased from VN$1.4 billion in 1967 to VN$30.3 billion by the end of 1973. Deposits and savings increased from VN$287 million in 1968 to VN$6.8 billion on December 31, 1973. Interest rates paid on deposits were increased from a range of 3% to 4% to a range of 10% to 20% on October 1, 1970. Subsequently, they were increased to a low of 17% and a high of 24%. Loans from the West German Government and the Asian Development Bank were obtained; U.S. counterpart funding totaled VN$5.7 billion and GVN funding exceeded VN$17.1 billion on December 31, 1973. Despite these increases, VN$40 billion additional funding is necessary in CY 74.

The ADBV advanced VN$33 billion to 328,000 families in CY 73 compared to VN$18.9 billion to 202,000 families in CY 72.

The National Bank has not yet approved discount procedures which would improve liquidity for the ADBV.

This action has not been taken because the ADBV does not conform with the National Banking laws that would subject it to the same reserve and collateral requirements imposed on commercial banks which would preclude credit extension for many small farmers credit programs. (See Appendix C.)

The Institutional Capability of ADBV Has Been Strengthened. The ADBV staff has been increased substantially and major in-country training programs were organized utilizing trainers who had received training in third countries and the U.S. under the USAID Participant Training Program.

Three ADBV officials are enrolled in academic courses in the U.S. and three others are awaiting call forward. Sixty private rural bankers are scheduled to receive training in the Philippines in FY 74.

Two experienced TDY credit personnel have been made available to the banks project loan section. A capable cadre of officials is emerging and the quality of their loan dockets is good. In April 1974 USAID sponsored a four-week Bankable Project training course at Nha Trang for ADBV, the Ministry of Agriculture, and NEDF personnel.

No regional supervisory positions have been established; however, the ADBV management has tentatively discussed the possibility of establishing one trial position in Region IV.

An Effective Rural Bank System was Established. There are 67 private rural banks in operation, 20 additional banks have received temporary licenses and approximately 40 additional applications are on hand. Fifty new banks will be opened in CY 74. The rural bank system loaned VN$7.4 billion to 50,981 families in 1973. Deposits increased from VN$763 million on January 1. 1973 to VN$1.6 billion on December 31, 1973.

The GVN supplied VN$1.1 billion of the VN$2.4 billion invested in stock of the 60 rural banks, under the terms of a 1969 Memorandum of Agreement with USAID. Discounting services with the ADBV were also provided.

A Village Self Development Loan Program Is Underway. A special pilot village credit program concentrated VN$ 2 billion of loan funds in approximately 260 villages which were selected by a joint GVN/USAID committee and funded in April 1974.

The ADBV will supply special field cadre and a training program for Village Credit Committees to enhance the success of this program.

Medium and Long Term Credit Section. A special department was created within the ADBV to develop capital projects, the type of financing requiring large capital investments to be repaid over a period of years.

The members of the department are quickly acquiring competence in assembling, preparing, appraising, and servicing this type of financing.

Other Donors

ROCKEFELLER FOUNDATION	- Provided funds for one PhD candidate at Ohio University who will complete his studies in June 1974.
COLOMBO PLAN	- Furnished funds to send two ADBV staff members to European countries for training (one in 1972 and one in 1973).
ASIAN DEVELOPMENT BANK	- Made available a US$2½ million fishery loan.
WORLD BANK	- Has two loan proposals under consideration.
WEST GERMAN GOVERNMENT	- Made available a loan for farm mechanization.

PROJECT PROBLEMS

Controversial Credit Policies

At the beginning of this project, the Mission credit policy was predicated on the theory that rural credit was inflationary. As a consequence only token financing from counterpart sources was carried out. However, under the current Mission administrative policy, rural credit for production purposes is considered counter inflationary where it results in increased agricultural production. Consequently substantial inputs of capital from counterpart sources have been transferred to it and additional transfers are planned.

Because of the present high rate of inflation, all ADBV loans are being made at a negative rate of interest which over a period of time will have a dissipating effect on loan capital. Nevertheless, in the GVN there are many advocates of lower interest rates. Thus there will be a continuing problem of keeping interest rates up to a level that will permit the ADBV to keep its equity capital intact. (Current interest rates - see Appendix D.)

The 45% tax on the net profit of ADBV which was scheduled to become effective starting in 1973 could affect operations very adversely, particularly in view of the effect of inflation on purchasing power. Action needs to be taken to exempt the ADBV from this tax.

Liquidity

The ADBV does not have discount privileges at the National Bank which would help solve frequent liquidity problems that arise while it is seeking or awaiting the transfers of other funds.

The National Bank opposes extending discount privileges to the ADBV because it is not subject to all the regulations of the National Banking system. If the ADBV was required to conform to the National

Banking laws it would be subjected to the same reserve and collateral requirements imposed on commercial banks which would preclude credit extension for many of the small farmers credit programs.

Limited Credit Delivery

Many farmers in remote areas are not adequately served or find it very time-consuming and costly to obtain loans because of the remoteness of available credit outlets. The goal is to furnish a minimum of 60% of agricultural credit needs of Vietnamese farmers.

The problem of a more adequate credit delivery system should be examined to determine whether additional ADBV offices should be opened in strategic areas; part-time offices could be opened in selected villages; mobile banks could be used; or some other supplemental system such as credit cooperatives or credit unions could be established.

The graduation of borrowers to the Rural Bank System should be considered. The ADBV management could insist that all applicants eligible for private bank loans be referred to the private rural bank in the families' district. The ADB would focus on financing worthy families who do not have the collateral or other requirements necessary to secure credit from a rural bank. An eventual goal of the ADBV should be to become a banker's bank and provide discount and rediscount services to rural banks and other credit delivery systems turning the small loan field over to them.

Operating Problems with NEDF

The medium and long term credit program of the ADBV using National Economic Development Funds (NEDF) has not operated satisfactorily. Present regulations of NEDF and its operating methods make it impracticable and unworkable for agricultural financing.

Overlapping of Government Credit for Agriculture

Competition among credit institutions is desirable but there is a concurrent need to prevent duplication and overlapping among Government sponsored financing agencies making agri-business loans.

Improve Liaison with the Field

It is the opinion of the USAID advisory team that two or more area or regional field positions should be created. These officials would be the eyes and ears of the Director General in the provinces, have loan approval authority now exercised in the central ADBV office, have personnel management duties, serve as liaison officers to foreign and GVN field officials, and cooperate with other Government agencies.

PROPOSED FOLLOW-UP ACTIONS

Increase Loan Capital

Necessary arrangements and documentation must be made to obtain an additional VN$36 billion for the ADBV and VN$4 billion for private rural banks from GVN/Counterpart funds which is estimated to be required to meet the 1974 credit needs. As a means of controlling inflation and increasing the amount of loanable funds, interest rates on savings and deposits should be adjusted upward at both the ADBV and in private rural banks. Consideration should also be given to increasing the capital stock requirements of private rural banks.

Improve Institutional Capability

We propose action be taken to:

1. Encourage earlier, more intensive English training for potential U.S. trainees which would assure more timely placements.

2. Develop a greater depth in middle management to alleviate some of the work load of senior management. This is especially important in view of the expected major expansion of ADBV activities.

3. Establish a limited number (two initially) of Regional supervisory positions and delegate more loan approval authority.

4. Expand technical assistance to farmers.

5. Expand the use of the automated data system for the rural bank program.

6. Develop curricula and provide training for ADBV cadre and village committees who will have responsibility for the pilot VSD program.

Other Follow-Up Action Suggestions

1. Eliminate the 45% tax on ADBV net profits.

2. Provide deposit insurance in private rural banks as a means of encouraging deposits.

3. Acquire discount privileges for ADBV loans at the National Bank.

4. Simplify the process for converting loan collateral on defaulted loans; encourage a change in the national law if necessary.

5. Develop a more effective working relationship with farm organizations and cooperatives using them if practicable to disburse credit to farmers.

6. Consider the use of credit insurance in private rural banks.

7. Require employees disbursing and collecting loan funds to be bonded.

8. License more than one private rural bank in a district where it appears adequate business is available.

A P P E N D I X A

PROJECT INPUTS BY USAID

1. VN$5.7 billion of FAC funds as equity capital for the ADBV as of March 20, 1974.

2. VN$1.8 billion of FAC funds for support of Private Rural Bank System as of March 20, 1974.

3. The following project funding in thousands U.S. dollars for the period 1971-1973 was provided.[1/]

	Cum. Oblig.	Cum. Exp.	Pipeline (Unliquidated)
Direct Hire	5	5	0
PASA	299	285	14
Local & TCN	1	1	0
Participant training	141	82	59
Other costs	1	1	0
TOTAL	447	374	73

4. The 1974 PBS provides for the following funding:

	FY 74	FY 75	FY 76
Direct Hire/PASA [2/]	265	370	370
Participants [3/]	100	125	135
Other	5	10	10
TOTAL	370	500	510

1/ Data furnished by USAID Controllers Office.

2/ 7 ceiling positions in each of the three years.

3/ In 1974, 60 rural bankers are scheduled to receive two-week training in the Philippines and four ADBV personnel will be sent to the U.S. for advanced academic training.

A P P E N D I X B

PRIVATE RURAL BANKS

Nature of Rural Banks

Rural banks are private banks organized in rural communities for the purpose of specializing in the extension of credit to small farmers and granted special privileges by the Government to enable them to do so. Among these privileges are:

Government Privileges of Rural Banks

1. Government counterpart capital assistance in the form of non-voting preferred stocks.

2. Tax exemption.

3. Free technical assistance, including training of their officers and employees.

4. Rediscounting with the Agricultural Development Bank at preferred rates.

5. Free audit service.

Rural Banking Represents Effective Private and Government Partnership for Rural Development

The Government's counterpart investment in a rural bank is in the form of non-voting preferred shares in order to place the management of the bank in purely private hands. This is expected to reasonably free the rural bank from interference. This would also improve the collectivity of the loans because it is often difficult to collect a loan from a farmer-borrower if he knows that the loan came from Government funds. However, the shares are preferred as to assets in case of liquidation to "encourage" the private stockholders to manage a bank efficiently because in case of failure, the

Government's share in the bank takes precedence over the claims of private stockholders. The free technical assistance and training of officers and employees of rural banks will solve the problem of lack of rural residents with sufficient experience and training in banking and financing. The Agricultural Development Bank will not permit the operation of a rural bank unless it is satisfied that the proposed officers and employees of the rural bank shall have acquired proficiency in performing their respective duties and responsibilities in the bank. The free audit service that the ADBV will render to the rural banks (in addition to the supervisory examination that will be undertaken by the National Bank of Vietnam) will assure continuing efficient operation of said banks. Rediscounting (or borrowings from the ADBV against borrowers' promissory notes) will enable rural banks to expand their credit operations in accordance with the changing demand of the community in which they operate. Since rediscounting accommodation would be extended to rural banks at preferred rates, it would be possible for rural banks to generate more income than would be possible if they would rely solely on their normal sources of funds. Thus, private initiative in the establishment of rural banks, plus government financial and technical assistance mentioned above is expected to produce a happy combination of Government and private business working together in providing a system of credit oriented to the welfare and well-being of small farmers and other small Vietnamese entrepreneurs.

Expected Benefits of Rural Banking to the Country

The establishment of a rural banking system is expected to produce the following benefits to the country:

1. The emergence of a credit system special to the needs of small farmers who constitute a great majority of the country's farm populations;

2. A more effective and realistic approach to the credit problems of small farmers since every rural bank would be managed and operated by the local people who are acquainted with the place and those who live in it: serious obstacles in selecting their borrowers, and in making credit decisions would thus be minimized;

3. More private funds would be available for agricultural credit in the form of private capital in the rural banks and deposits therein by private individuals. This would lessen the financial burden to the Government of having to provide additional funds for credit to small farmers;

4. The emergence of a very effective instrument of rural development since the credit operations of rural banks shall be oriented to increase agricultural productivity, which is part and parcel of rural development. The financial and technical assistance which the rural banks may obtain from the Government, as indicated above, would be a tremendous boost in this regard.

Rural Banking as a Sound and Profitable Investment

Apart from the economic advantage of the Rural Bank Project from the national standpoint, rural banking should prove attractive to operators and owners of commercial and indus-

trial enterprises and other people of affluence in the rural areas who are interested in investment opportunities that offer the best elements of safety and profitability. Evidently, investors and depositors in banks are well protected by means of strict Government supervision and examination, banking rules and regulations, and rigid training of their officers and employees and timely government assistance to banks in times of need. Government financial and technical assistance and tax exemptions make it possible for rural banks to give a reasonably high rate of return on their stockholders investments without deviating from the principal objective of the Rural Banking System of contributing to the speedy development of the rural areas of Vietnam.

THE PRIVATE RURAL BANK AND HOW IT OPERATES*

1. What is a Rural Bank?

A Rural Bank is a private credit institution organized with government financial and technical assistance to enable it to specialize in the extension of credit to operators of small farm and fishing units or small industries and other essential rural business enterprises.

2. What Are the Objectives of the Rural Banks?

a. To eliminate the high cost of rural credit.

b. To promote economic development in rural areas by providing the incentive and facilities to encourage maximum utilization of capital resources available.

c. To encourage rural savings.

3. Who Can Borrow from the Rural Banks?

a. Owners and/or operators of small farming and fishing units who lack capital resources required to profitably increase their agricultural production.

b. Operators of small industries and agri-businesses.

4. Who Are Considered Eligible Borrowers?

a. Farmers owning or cultivating not more than 10 hectares of land devoted to agricultural production.

b. Fishermen whose capital investment does not exceed one million piasters (VN$1,000,000).

c. Rural merchants whose capital investment does not exceed five hundred thousand piasters (VN$500,000).

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* This information is presented so that advisors in the field will be better equipped to assist their counterparts promote the rural bank concept.

d. Operators of rural industrial enterprises whose capital investment does not exceed one million piasters (VN$1,000,000).

5. What Is the Rural Development Bank Fund (RDBF)?

The fund was established and funded jointly by GVN/USAID. The fund is entrusted to the ADBV for the purpose of purchasing preferred non-voting capital stock discounting loan instruments of private rural banks and paying certain administrative costs.

6. What Special Privileges do Rural Banks Enjoy?

a. Purchase of preferred capital stock by the RDBF.

b. Discounting of eligible paper by RDBV.

c. Exemption of taxes and fees.

d. Assistance from ADBV in bank organization, training of employees, audit, and general administrative assistance.

7. Since a Rural Bank Receives Special Privileges from the Government why Is it Considered a Private Bank?

a. It is organized through private initiative.

b. Government purchase of capital stock is non-voting.

c. Management is under control of local citizens.

8. What Are the Respective Areas of Responsibility of the ADBV and the NBVN insofar as Rural Banks Are Concerned?

a. The National Bank of Vietnam (NBVN) recommends to the Ministry of Finance the establishment of a rural bank and conducts an examination of such banks as part of its duty to supervise all banking establishments in Vietnam.

b. The ADBV has the following duties:

(1) To process applications for the establishment of rural banks before said applications are acted upon by the NBVN.

(2) To administer the Rural Bank Development Fund.

(3) To train officers and employees of rural banks.

(4) To make periodic audits of rural banks.

(5) To formulate policies and regulations governing rural banks subject to approval by the NBVN.

9. What Sources of Operating Funds Are Available to a Rural Bank?

a. Capital investment of private shareholders.

b. Capital assistance from the Rural Bank Development Fund.

c. Deposits from private citizens.

10. How Can the Rural People Operate a Rural Bank when They do not Have any Knowledge of it, Considering that Banking Is a very Delicate and Technical Business Activity?

The ADBV operates a training center for rural bank officers and employees. The prospective officers and employees first attend a formal course in Saigon; then rural bank training officers stay in the rural bank during the first two or three weeks of the bank's operations to continue the on-the-job-training of the bank personnel. The ADBV does not permit the operation of a rural bank unless it is satisfied that the proposed officers and employees are fully trained and ready to assume their respective duties and responsibilities in the bank.

11. How Are the Rural Banks Established?

a. Who May Apply for License to Establish a Rural Bank?

Not less than seven, legally qualified individuals may file an application for administrative authorization to establish and operate a rural bank.

b. What Are the Steps Involved in Applying for a License to Establish a Rural Bank?

(1) The first step is to determine the desirability of establishing such a bank. (Will it supply the financial needs of the locality? Will it be supported by the people and the business in the locality?)

(2) The second step is for the organizers to hold a meeting to discuss the plan and decide on the capital structure and organizational set-up of the proposed rural bank.

(3) The organizers will then complete an application form and prepare the supporting documents, including an Agreement to Organize a Rural Bank and Information Sheets of the proposed organizers.

(4) The application and supporting documents are filed with the ADBV which will process and evaluate the application.

(5) The ADBV submits the application to the NBVN which will make its own recommendation to the Minister of Finance who is empowered by law to issue the administrative authorization to establish the rural bank.

c. What Are the Basic Policies in the Establishment of a Rural Bank?

(1) Rural banks are organized in the form of "Societe Anonyme" with fixed capital in accordance with existing laws concerning this corporate form.

(2) Until otherwise provided by the NBVN, the minimum paid in capital requirements for the establishment of a rural bank is VN$20,000,000.

(3) The ownership of stock in a rural bank should be as widely dispersed as possible and in no case may a single person or family group own or control more than 49% of its total subscribed capital. A family group, as used herein, includes organizers who are related with one another within the third civil degree of consanguinity or affinity.

PRIVATE RURAL BANK
COMPARATIVE ACTIVITY REPORT
1972 - 1973

Activity	1972 (VN$ Bill.)	1973 (VN$ Bill.)	Increase VN$ Bill.	Increase Percent
Deposit	.7	1.6	.9	12.8
Loans	3.3	7.4	4.1	124
Collections	2.1	5.4	3.3	157
Outstanding loan balance	1.9	3.9	2.0	105

*//

Activity	1972	1973	Increase Amount	Increase Percent
Number of loans	23,964	50,981	27,017	113
Average size loan (VN$)	139,000	145,000	6,000	4

//*

Number of banks	35	60	25	71

A P P E N D I X C

ADBV AND PRB FUNDING SUMMARY
BY SOURCE OF FUNDS

Source	12/31/73 (VN$)
GVN	17,133,732,887
Counterpart	4,738,005,320
ADBV	5,722,219,212
Capital	(200,000,000)
65% DD	(722,388,816)
85% S & TD	(4,780,727,659)
Net profit	(19,102,737)
Village Fund	1,080,876,670
Sub-Total	28,674,834,089
GVN PRB	833,468,577
CPT PRB	850,000,000
TOTAL	30,358,302,666

A P P E N D I X D

PRIVATE RURAL BANKS
INTEREST CHARGE ON LOANS
(OCT. 15, 1973)

Agricultural Loans 1/	29% p.a.
Non-Agricultural Loans 2/	30% p.a. (+ quarterly fee of 0.5%)

1/ A 0.25% per month penalty on past due accounts may be charged from date of maturity to date of payment.

2/ Penalty charge of 0.25% per month on past due accounts from date of maturity to date of payment.

* / * / * / * / * / * / * / * / * / * / * / * / * /

DISCOUNT LOAN RATES
EFFECTIVE OCT. 15, 1973
(ADB TO PRB)

Amount of Loan	Under VN$100,000	From VN$101,000 to VN$300,000	From VN$301,000 to VN$500,000
Agric loans	100%	80%	60%
Non-agric loans	80%	70%	30%

REDISCOUNTING RATE
(ADB CHARGES TO RURAL BANKS
TO DISCOUNT NOTES)

A - 16% per annum (agriculture, forestry and fishery).

B - 20% per annum (rural industrial and handicraft).

C - Penalty on overdue accounts will be computed at 10% on A and 7% on B.

D - Rural banks that do not meet the minimum requirement that 60% of loanable funds are processed for category "A" (above) will forfeit discounting privileges.

E - Any rural bank having over due accounts in excess of 20% of total loaning shall also forfeit discounting privileges.

/*

CURRENT INTEREST RATES
(AS OF OCT 15, 1973)
CHARGED ON LOANS (ADB)

	Percent
Production Loans	24
Medium Term	14
Long Term	14
Cooperatives	24
Cooperative Marketing	24 + 0.50 1/
Marketing & Comm. Loans	26 + 0.50 1/

1/ Commission computed quarterly.

AGRICULTURAL DEVELOPMENT BANKS AND PRIVATE RURAL BANKS INTEREST RATES PAID ON TIME AND SAVINGS ACCOUNTS

(As of October 15, 1973)

Interest rates paid on time and savings accounts are as follows:

Time Deposits	Percent
1 month	17
3 months	19
6 months	21
9 months	22
12 months	24
Savings	17
Saving with lottery	13*

* An additional 4% is divided among lottery winners.

TOTAL NUMBER OF LOANS PROVIDED BY THE RURAL BANK SYSTEM (1971 - 1974)

MONTH	1971	1972	1973	1974
January	206	1,223	2,914	3,313
February	288	1,060	1,465	4,438
March	518	1,808	3,512	6,174
3 mos. TOTAL	1,012	4,091	7,891	13,925
April	486	2,006	4,076	
May	497	1,612	5,254	
June	488	1,776	4,962	
6 mos. TOTAL	2,483	9,485	22,183	
July	625	2,256	4,812	
August	818	2,201	3,345	
September	701	2,326	4,196	
9 mos. TOTAL	4,627	16,268	34,536	
October	1,009	2,367	4,735	
November	1,173	2,381	6,235	
December	1,248	2,802	5,475	
12 mos. TOTAL	8,057	23,818	50,981	
	(21 banks)	(35 banks)	(60 banks)	

TOTAL CREDIT ISSUED BY
THE RURAL BANK SYSTEM
IN 1971-1972-1973-1974

(VN$ Million)

MONTH	1971	1972	1973	1974
January	25	230	437	455
February	29	164	304	621
March	42	243	521	845
3 mos. TOTAL	96	637	1,262	1,921
April	43	265	558	
May	48	204	661	
June	58	209	660	
6 mos. TOTAL	245	1,315	3,140	
July	76	291	749	
August	89	293	503	
September	97	287	751	
9 mos. TOTAL	507	2,186	5,143	
October	136	375	779	
November	155	359	763	
December	161	430	717	
12 mos. TOTAL	959	3,350	7,403	
	(21 Rural Banks)	(35 Rural Banks)	(60 Rural Banks)	

Total based on unrounded figures.

PRB LOAN ACTIVITY
1971, 1972, 1973, 1974
AMOUNT COLLECTED
(VN$ Million)

MONTH	1971	1972	1973	1974
January	-	104	284	452
February	-	82	299	622
March	-	157	433	792
3 mos. TOTAL	-	343	1,016	1,866
April	-	169	424	
May	-	180	467	
June	-	152	455	
6 mos. TOTAL	-	844	2,362	
July	-	211	406	
August	-	153	429	
September	35	185	584	
9 mos. TOTAL	235	1,393	3,781	
October	35	255	607	
November	43	224	518	
December	81	253	514	
12 mos. TOTAL	394	2,125	5,420	
	(21 Rural Banks)	(35 Rural Banks)	(60 Rural Banks)	

Total based on unrounded figures.

PRB LOAN ACTIVITY
1971, 1972, 1973, 1974
OUTSTANDING BALANCES AT END OF MONTHS
(VN$ Million)

MONTH	1971	1972	1973	1974
January	-	852	2,102	3,906
February	-	933	2,107	3,905
March	-	1,019	2,195	3,958
April	-	1,115	2,330	
May	-	1,139	2,524	
June	-	1,196	2,729	
July	-	1,313	3,042	
August	368	1,416	3,116	
September	430	1,518	3,286	
October	530	1,637	3,457	
November	642	1,773	3,704	
December	725	1,949	3,903	
	(21 Rural Banks)	(35 Rural Banks)	(60 Rural Banks)	

Total based on unrounded figures.

PRIVATE RURAL BANKS
DEPOSITS AND SAVINGS SITUATION
(VN$ Million)

	Current Savings	Demand Deposits	Time Deposits	Grand* Total
Sep 71	74	1	52	127
Oct 71	99	3	72	174
Nov 71	112	13	84	209
Dec 71	140	35	97	272
Jan 72	153	33	112	298
Feb 72	142	38	142	322
Mar 72	164	38	179	381
Apr 72	179	40	198	417
May 72	163	25	201	389
Jun 72	172	24	232	428
Jul 72	193	41	288	522
Aug 72	202	38	308	548
Sep 72	224	47	332	603
Oct 72	256	36	360	652
Nov 72	283	37	385	705
Dec 72	308	35	454	764
Jan 73	292	35	454	781
Feb 73	315	38	520	873
Mar 73	342	42	526	910
Apr 73	371	72	660	1,104
May 73	431	75	714	1,220
Jun 73	428	81	749	1,258
Jul 73	492	64	803	1,359
Aug 73	540	67	831	1,438
Sep 73	574	56	862	1,492
Oct 73	678	55	858	1,591
Nov 73	723	56	873	1,652
Dec 73	690	68	857	1,616
Jan 74	686	35	861	1,582
Feb 74	700	84	905	1,689
Mar 74	703	51	903	1,657

* Total based on unrounded figures.

A P P E N D I X E

ADBV LOAN PROGRAM

AGRIBUSINESS LOANS

I. ELIGIBLE BORROWERS

A. For Import and Distribution of Agric Inputs and Mechanization

1. Tenant Farmers Union (CVT)
2. National Federation of Cooperatives (NFAC)
3. Central Farmers Association (CFA)
4. Other Central Farmers Organizations recognized by GVN

B. For Retailing Agric Inputs, Agricultural and Fishery Machinery and Equipment

1. Private individuals
2. Local cooperatives
3. Local farmers associations

II. LOAN PURPOSES

A. For Borrowers in "A" above
Import and distribution of

a. Agric inputs
b. Agricultural fishery machinery and equipment

B. For Borrowers in "B" above

a. Purchase and transportation of agric inputs, and or agricultural and fishery machinery and equipment

III. INTEREST RATES AND TERM OF LOAN

A. Interest rates to farmers organizations: 26% per annum

B. Interest rates to other private dealers: 26% to 28% per annum

IV. SECURITY REQUIREMENTS

A. Farmers Organization: Note only

B. Private dealers : Mortgage lien on real and/or chattel property

V. LOAN LIMIT

A. Farmers Organization: None

B. Private dealers : 60% of current value of mortgaged real property

40% of mortgaged chattel property

LAND REFORM LOANS

I ELIGIBLE BORROWERS

A. Farmers who have received land titles under the "Land Reform Law."

II. LOAN PURPOSES

A. Production facilities

B. Agric inputs

III. INTEREST RATES AND TERM OF LOAN

A. Interest rate: 24% per annum

B. Term of loan : 9 months

IV. SECURITY REQUIREMENTS

A. Land title is held in escrow by ADBV (This is not a registered mortgaged lien)

V. LOAN LIMIT

A. VN$70,000 per hectare of new land obtained through the "Land Reform Law."

SWINE AND POULTRY DEVELOPMENT LOANS

I. ELIGIBLE BORROWERS

A. Operators of "family size" swine and poultry farms.

B. Operators of "commercial" swine and poultry farms.

II. LOAN PURPOSES

A. Breeding stock.

B. Broiler production to swine feed lot production.

C. Building facilities and equipment essential to poultry and swine production.

III. INTEREST RATE AND TERM OF LOAN

Loan Purpose	Interest Rate per Annum	Term
A. Breeding stock	-24%	2 years
B. Broiler and swine feed lot	24%	1-1½ years
C. Building and equipment	14%	2-3 years

IV. SECURITY REQUIREMENTS

A. Loans under VN$50,000 : Note only.

B. Loans VN$50,000 and more: Mortgage lien on real and or chattel property.

V. LOAN LIMIT

60% of present appraised value of land and building mortgaged to secure loan 40% of present appraised value of chattels.

CORN PRODUCTION LOANS

I. ELIGIBLE BORROWERS

A. Farmers who will grow corn on owned or leased land.

II. LOAN PURPOSES

A. For purchase of inputs essential to sorghum production.

III. INTEREST RATES AND TERM OF LOAN

A. Interest rate: 24% per annum

B. Term of loan : 6 months - may be extended if farmer continues to grow

IV. SECURITY REQUIREMENTS

A. Loans under VN$50,000 : Note only.

B. Loans VN$50,000 or more: Lien on real and or chattel property or consignor

V. LOAN LIMIT

A. VN$60,000 per hectare

SORGHUM PRODUCTION LOANS

I. ELIGIBLE BORROWERS

A. Farmers who will grow sorghum on owned or leased land.

B. Companies that grow sorghum on owned or leased land.

C. Individuals and partnerships or companies who buy and process sorghum grain.

II. LOAN PURPOSES

A. Agric inputs essential to sorghum production.

III. INTEREST RATES AND TERM OF LOAN

A. Interest rate: 24% per annum

B. Term of loan : 6 months - may be extended if farmer continues to grow sorghum

IV. SECURITY REQUIREMENTS

A. Loans under VN$80,000 : Note only.

B. Loans VN$80,000 or more : Lien on real and/ or property or consignor

V. LOAN LIMIT

VN$50,000 per hectare

LOANS FOR DEVELOPMENT OF FARMERS ORGANIZATIONS

I. ELIGIBLE BORROWERS

A. Cooperatives and Farmers Associations currently chartered by the Government of Vietnam.

II. LOAN PURPOSES

A. Annual operating expenses

B. Capital investment

C. Loan capital to reloan to members

III. INTEREST RATES AND TERM OF LOAN

A. Interest rate is 14% per annum.

B. Term is negotiable but usually does not exceed nine (9) months for business operations, one (1) year for relending to members and three (3) years for capital investment.

IV. SECURITY INSTRUMENTS

A. Lien on real and chattel property

V. LOAN LIMIT

No piaster limitation per loan. Limit based on capability to use and reloan effectively and efficiently.

VI. APPLICANT SELECTION

Based on:

A. Security in the service area
B. Capability of Board of Directors
C. Skill and integrity of management staff
D. Member usage of farm organization
E. Financial support by membership
F. Volume of business and financial records
G. Proposed use of loan capital

NEW CUSTOMER CREDIT

I. ELIGIBLE BORROWERS

A. Individual farmers

1. Who are not current or prior ADBV borrowers.
2. Individuals with paid NACO accounts are eligible.

II. LOAN PURPOSE

A. Agric inputs required in agricultural, forestry and fishery production.

B. Mechanization.

III. INTEREST RATES AND TERM OF LOAN

A. Interest rate: 24% per annum

B. Term of loan :

Production: 6-9 months but negotiable
Mechanization: 1-3 years

IV. SECURITY INSTRUMENTS

A. Production loans

1. Under VN$100,000 : Note only
2. VN$100,000 or more: Lien on real and/or chattel property or consignor

V. LOAN LIMIT

Cost of items financed

DEVELOPMENT CREDIT LOANS

I. OBJECTIVES

To supply credit to support capital investment projects to establish, expand or modernize agricultural and fishery production and related business essential to production, harvesting, processing, storing and transporting and marketing the produce.

II. ELIGIBILITY

Individuals, companies, and partnerships engaged in agricultural and fishery production and ancillary businesses.

III. LOAN PURPOSES

A. Production

1. Land development and improvement
2. Water development and improvement
3. Mechanization

B. Ancillary business

1. Land requisition
2. Building materials
3. Construction
4. Equipment and tools

IV. RATES AND TERMS

A. Interest is 14% per annum

B. Term is 2 to 10 years but not to exceed the capability to repay or the useful life of the investment

V. SECURITY

Lien, not to exceed 125% of the loan, on chattel and/or real property

VI. LOAN LIMIT

A. Cost of items financed

B. Refinancing is not permitted

SUGARCANE EXPANSION CREDIT

I. ELIGIBLE BORROWERS

A. Sugarcane growers.

B. Cooperatives and Farmers Associations supporting sugarcane production.

II. LOAN PURPOSES

A. Agric inputs essential to sugarcane production.

B. Mechanization required in sugarcane production.

C. Credit to cooperatives and farmers associations to be reloaned to their members for sugarcane production.

III. INTEREST RATES AND TERM OF LOAN

Vary in accordance with loan purpose as follows:

Loan Purpose	Interest Rate Per Annum	Term
A. Production	24%	9-12 months
B. Mechanization	14%	1-3 years
C. Farmers Organizations		

IV. SECURITY INSTRUMENTS

A. Loans under VN$100,000 : Note only.

B. Loans VN$100,000 and more: Real estate lien or consignor

V. LOAN LIMIT

A. For inputs VN$125,000 per hectare but not to exceed the total cost of inputs.

B. Mechanizations, no limit.

C. Farmers organizations -- need and capability to reloan.